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435 index. This fundamental change in price relations indicated an improved position of the rural population. The improvement was considerable, even if the opportunities of selling some part of their products above official prices be disregarded. This development was enforced by economic facts; its operation seemed, however, to have been assisted by political considerations.

As far as farm products were concerned, price policy was imposed on the planners by the economic facts. Regarding industrial prices, governed by costs of production, the Plan pressed for improved efficiency and economy, and would not accept actual current costs as the standard. However, prices were being forced up by rising costs of materials and wages. Also managements tended to overstate their costs in order to enlarge their surpluses. The pressure exerted by these factors prevented the authorities from handling price policy as an instrument for planning production. So far as capital goods were concerned, no special stimulus was needed, for the Plan provided for their absorption at official prices. As to consumer goods, the authorities, haunted by the increasing costs, vacillated between the financial and the social points of view. Financial aspects were mostly dominant, yet as soon as consumers' resistance became perceptible (as referred to on p. 82) endangering sales of the products, hasty measures were taken to reduce prices. In a seller's market adjustments of this kind easily brought about the shifts desired, while the price reduction of the article concerned led to a re-examination of costs of production.

It is not possible to detect whether the tendency of the official policy of fixing prices according to the cost of the least efficient producer underwent some change. Possibly deficiencies of price policy were made up to some extent by the compulsion to produce increasing surpluses, the compulsion acting as an incentive to reduce cost. However, the pressure brought upon the executives of public enterprises might result as well in capital consumption.

SOME ASPECTS OF COST CALCULATION

451 Economy of costs in industry was an integral part of the Plan.
456 Progress in that field was, in fact, indispensable to fulfil so
435 ambitious a programme. Special attention, therefore, was given to the methods of costing. They were worked out with the characteristic limitation of excluding the calculation of capital cost (see pp. 76–8). The fundamentals of the costing system are worked out clear-cut in a decree issued by the Supreme Economic Council in February 1949. It was naturally based on

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previous rulings, which it completed in some detail, and gave greater precision on certain points. According to the decree price calculation has to be built up in three stages: [435] 656 451

(1) Processing costs;
(2) Costs of management and distribution;
(3) Taxes and profit.

The total of the first and second groups makes up the actual costs, and the selling price is obtained after adding to these costs taxes and profit, constituting the third group within the calculation. A peculiarity of this scheme of calculation is that in its classification it throws prime costs and overhead costs together. The decree specifies the following under processing costs: materials, wages, social services, special processing costs (such as models or experiments associated with a special branch of production), and finally overhead costs, so far as these are not included under management and distribution. Allowance for replacement naturally constitutes a further element of cost. The rate of the allowance must be that fixed by the National Planning Department.

The decree on costing was intended, besides setting rules for accounting, to ensure adherence to the regulations concerning prices and wages. Any calculation containing prices for materials exceeding official prices was ruled out. Wage costs should strictly conform to the level fixed in the collective wage agreements, and any expenditure arising from laxity in determining the norms for piece-rates should not be admitted. Separate regulations set a limit for expenditure on the social welfare of the employees. Fees paid to experts and commissions to salesmen were to be paid according to officially-adopted tariffs. Advertising costs were only admitted if previously approved by the competent authority.

A further objective of the decree was to prevent uneconomic methods of production. Expenses for raw materials were to be accepted only for technically justifiable quantities. Elaborate regulations were designed to exert pressure on management to keep waste and faulty production within narrow limits. Losses on these accounts were to be calculated separately, and were admitted as costs only as far as they did not exceed the average in the industrial branch concerned. This average was to be determined by the Industrial Directorate, and losses above that level had to be borne by the enterprise. In particular, the inclusion of losses arising from defective production of whole series of articles in the cost calculation was not allowed.

These rules applied equally to privately and publicly-owned

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451 enterprises. Regulations applying particularly to the calculation
656 of the profits of private enterprises require separate mention. A profit rate of either 5 or 8 per cent on sales reckoned at factor cost[1] was fixed. It depended on the ratio between the yearly amount of sales and the capital of the enterprise which of the two rates should be employed. The higher rate was applicable when yearly sales did not amount to more than double the capital; in other cases 5 per cent was admitted. It was the competent Industrial Directorate that decided upon the classification of the individual enterprises from the point of view of profit-rate calculation. How this rough and ready system works has not been disclosed.

451 The same base was used for determining the scale of contri-
656 butions of public enterprises to the Treasury. It was the sales again that furnished the basis for the payments of the enter-
454 prises to the central depreciation fund. An earlier decree fixed
652 to that effect a wide range of rates up to 13 per cent to be paid in as depreciation allowance. These rates were, in fact, not applied. A skeleton decree authorized the Planning Department to determine the rates. There is evidence that they were fixed at a very low level, and, though contributions according to industries varied, they were not correctly adjusted to true depreciation needs. Payments due on account of the company's tax also conformed to the sales pending final adjustment. It was, in fact, a peculiarity inherent in the whole accounting system, to rule out the capital account from calculation, a practice involving, in view of the low depreciation allowances, the danger of capital consumption.

The obligation to provide for replacements by monthly payments into a fund administered by the Investment Bank was imposed on public and private enterprises alike. The common fund of the public enterprises was subdivided into an investment section and a replacement section. The former—25 per cent of the whole—might be used, on instructions from the National Planning Department, to cover minor investments. The reserves built up by nationalized enterprises could be redistributed irrespectively of the amounts paid in by individual concerns. By this provision a central depreciation fund for industry under the command of the Planning Department was created.

656 Regulations on costing aimed at preventing waste and un-
433 economical methods of production, and a series of measures

[1] Though not essential to the working of the Plan it may be mentioned as characteristic of the position of private enterprise that only the accessory bank charges connected with loans were admitted as costs. Interest could not be included in the costs; it had to be deducted from profits. This measure evidently aimed at deterring private firms from borrowing.